

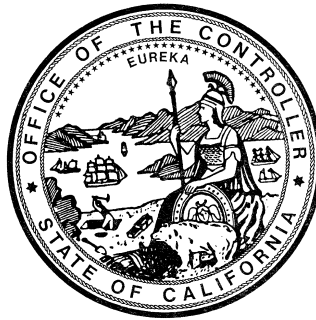
RIVERSIDE UNIFIED SCHOOL DISTRICT

Revised Audit Report

INTRADISTRICT ATTENDANCE PROGRAM

Chapters 161 and 915, Statutes of 1993

July 1, 1999, through June 30, 2001



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 19, 2007

Susan J. Rainey, Ed.D., Superintendent
Riverside Unified School District
3380 14th Street
Riverside, CA 92501

Dear Dr. Rainey:

The State Controller's Office audited the claims filed by the Riverside Unified School District for costs of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1999, through June 30, 2001. This revised final report supersedes our previous final report, issued on October 28, 2004. We revised the report to remove the audit results for FY 1998-99.

The district claimed \$537,278 (\$538,278 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$101,710 is allowable and \$435,568 is unallowable. The unallowable costs occurred primarily because the district claimed unsupported costs. The district was paid \$101,710.

This audit identifies \$403,072 of unallowable salary and benefit costs incurred by the district that were supported by employee certifications of estimated time spent on mandated activities. The district has the option of conducting a valid time study to determine the amounts of time spent performing eligible activities under the mandated program during the current year. The time study results could then be applied retroactively to the audit period. If the time study results affect the audit adjustments, we will revise the report accordingly.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's website at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm:vb

cc: Herb Calderon, Director of Fiscal Services
Riverside Unified School District
David Long, Ph.D., County Superintendent of Schools
Riverside County Office of Education
Scott Hannan, Director
School Fiscal Services Division
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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the Riverside Unified School District for costs of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1999, through June 30, 2001. The last day of fieldwork was December 15, 2003.

The district claimed \$537,278 (\$538,278 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$101,710 is allowable and \$435,568 is unallowable. The unallowable costs occurred primarily because the district claimed unsupported costs. The district was paid \$101,710.

Background

Chapter 161, Statutes of 1993, added *Education Code* Section 35106.5(c), requiring the governing board of each school district, on or before July 1, 1994, to prepare and adopt rules establishing and implementing a policy of open enrollment within the district for residents of the district, which provides that:

- The parent or guardian of each school-age child who is a resident in the district may select the school the child shall attend;
- Once the intradistrict transfer is selected, the transfer is evaluated to ascertain the impact of the transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools;
- Intradistrict attendance in excess of school site attendance area capacity shall be determined by a random, unbiased process that prohibits an evaluation of whether any pupil should be enrolled based upon his or her academic or athletic performance; and
- No pupil who currently resides in the attendance area of a school shall be displaced by pupils transferring from outside the attendance area.

Chapter 915, Statutes of 1993, amended *Education Code* Section 35106.5(c) to specify that the Intradistrict Attendance Program does not apply to school districts of only one school or school sites serving different grade levels, and that the school district is required to determine the capacity of the schools within the jurisdiction of the district.

On January 19, 1995, the Commission on State Mandates (COSM) ruled that Chapter 781, Statutes of 1992, imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561.

Parameters and Guidelines, adopted by COSM on May 24, 1995, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement in assisting local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

Our audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1999, through June 30, 2001.

We performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided for under *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Riverside Unified School District claimed \$537,278 (\$538,278 less a \$1,000 penalty for filing a late claim) for costs of the legislatively mandated Intradistrict Attendance Program. The audit disclosed that \$101,710 is allowable and \$435,568 is unallowable. The district was paid \$101,710.

This audit identifies \$403,072 of unallowable salary and benefit costs incurred by the district that were supported by employee certifications of estimated time spent on mandated activities. The district has the option of conducting a valid time study to determine the amounts of time spent performing eligible activities under the mandated program during the current year. The time study results could then be applied retroactively to the audit period. If the time study results affect the audit adjustments, we will revise the report accordingly.

**Views of
Responsible
Officials**

We issued a draft audit report on April 14, 2004. Michael H. Fine, Deputy Superintendent, responded by letter dated May 14, 2004, disagreeing with the audit results. We issued the final audit report on October 28, 2004.

**Follow-up
Correspondence**

In a letter to the Commission on State Mandates, dated June 20, 2006, the district questioned our authority to audit the FY 1998-99 claim because the statute of limitations for initiating an audit had expired. We had two years following the end of the calendar year in which the claim was filed to initiate the audit. The SCO logged in the district's claim on January 18, 2000. Therefore, our audit, initiated on February 27, 2003, was not started within the statutory time period. Consequently, the audit results for FY 1998-99, totaling \$540,468, have been removed from this revised final report. The district's response to the April 14, 2004, draft audit report is included as an attachment to this final report.

We left a telephone message with Michael Fine, Deputy Superintendent-Business Services, on June 5, 2007, to notify the district of the revised audit report and to inquire if the district had performed or was considering performing a time study related to mandated activities. Annette Alvarez of the district's mandated cost unit, responded by telephone on June 18, 2007, acknowledging the revised audit report results. She also commented that the district has not performed a time study, and has no plans to perform one because the district still believes that the documentation originally submitted in support of claimed costs was sufficient.

Restricted Use

This report is solely for the information and use of the Riverside Unified School District, the Riverside County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2001

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 255,948	\$ 39,766	\$ (216,182)	Finding 1
Materials and supplies	9,520	5,524	(3,996)	Finding 2
Subtotals	265,468	45,290	(220,178)	
Indirect costs	15,901	2,713	(13,188)	Findings 1, 2
Total program costs	<u>\$ 281,369</u>	48,003	<u>\$ (233,366)</u>	
Less amount paid by the State		(48,003)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 226,495	\$ 39,605	\$ (186,890)	Finding 1
Materials and supplies	19,421	12,761	(6,660)	Finding 2
Subtotals	245,916	52,366	(193,550)	
Indirect costs	10,993	2,341	(8,652)	
Total direct and indirect costs	256,909	54,707	(202,202)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 255,909</u>	53,707	<u>\$ (202,202)</u>	
Less amount paid by the State		(53,707)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 1999, through June 30, 2001</u>				
Salaries and benefits	\$ 482,443	\$ 79,371	\$ (430,072)	Finding 1
Services and supplies	28,941	18,285	(10,656)	Finding 2
Subtotals	511,384	97,656	(413,728)	
Indirect costs	26,894	5,054	(21,840)	Findings 1, 2
Total direct and indirect costs	538,278	102,710	(435,568)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 537,278</u>	101,710	<u>\$ (435,568)</u>	
Less amount paid by the State		(101,710)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salary and benefit costs, and related indirect costs

The district overstated employee salary and benefit costs claimed by \$403,072 during the audit period. The related indirect costs total \$21,303. Unsupported costs are as follows.

	Fiscal Year		Total
	1999-2000	2000-01	
Salaries and benefits	\$ (216,182)	\$ (186,890)	\$ (403,072)
Related indirect costs	(12,949)	(8,354)	(21,303)
Audit adjustment	<u>\$ (229,131)</u>	<u>\$ (195,244)</u>	<u>\$ (424,375)</u>

A summary of the claimed costs, allowable costs, and audit adjustments by reimbursable activities is as follows:

	Claimed Costs	Allowable Costs	Audit Adjustment
Policy and procedures	\$ 7,362	\$ 7,362	\$ —
Random selection process	313,592	8,137	(305,455)
Schoolsite capacity	161,489	63,872	(97,617)
Totals	<u>\$ 482,443</u>	<u>\$ 79,371</u>	<u>\$ (403,072)</u>

Unsupported salaries and benefits claimed by the district were derived from employee declarations of estimated time spent on mandated activities, ranging from monthly to annual hours. Declaration of estimated time does not constitute adequate documentation in support of claimed salaries and benefits.

Testing of the district's salaries and benefits revealed that the district did not have a consistent manner of recording employee time spent on mandated activities. Review of the documentation submitted for the audit indicated that staff at various school sites throughout the district prepared at least 54 different time declarations. All of the declarations were unsupported because none were traceable to source documents.

Parameters and Guidelines states that the district should support employee salaries and benefits by specifying the actual number of hours devoted to each function. The guidelines further state that the average number of hours devoted to each function may be claimed if supported by a documented time study. The district did not provide a documented time study to support claimed costs.

Recommendation

We recommend that the district establish and implement procedures to ensure all claimed costs are supported with source documents.

District's Response

The audit concludes that over \$960,000 of claims were based on unsupported salaries and benefit calculations. The Auditors determine that "estimates and declarations of time do not constitute adequate documentation in support of claimed" costs. The audit report goes on to interpret the Parameters and Guidelines and states that "the average number of hours devoted to each function may be claimed if supported by a documented time study." The audit report acknowledges that the District provided time declarations or time studies. The finding that the time studies provided were not documented is absurd and contrary to the facts.

During the December 15, 2003 exit conference, the State Controller's representative, Jim Venneman, explained that the Controller's Office was "working on defining standards for an acceptable time-study document." Mr. Venneman further stated that, "the definition of standards for a documented time-study would be included in future claiming instructions sent out by the State Controller's Office." The State Controller's Office acknowledged that the actual format, documentation, definition, etc. of a time-study was undefined. How is it possible to hold the District to a standard that is not defined? The District's time studies, declarations and supporting documentation are sufficient and reasonable. The auditor's finding is unsupported and wrong.

SCO's Comment

In the final audit report issued October 28, 2004, we stated:

The fiscal effect of the finding remains unchanged. The unallowable costs resulted from district-submitted declarations of estimated time spent, which are unacceptable source documents.

The finding, as presented in the draft report, has been edited to clarify that unallowable costs occurred because the district provided our auditors with declarations of estimated time rather than time studies for support of claimed costs.

We are not holding the district to undefined time study standards. The district did not support claimed costs with actual time records or a documented time study. The district still has the option of performing a valid time study during the current fiscal period, the results of which would be applied retroactively to this audit period.

Subsequent to issuing the final audit report, we determined that our authority to audit the FY 1998-99 claim had expired prior to initiating the audit. This revised final audit report removes the FY 1998-99 audit results. Consequently, unallowable costs decreased by \$536,379, from \$960,754 to \$424,375.

**FINDING 2—
Unallowable materials
and supplies costs,
and related indirect
costs**

The district overstated materials and supplies costs by \$10,656 for the audit period. The related indirect costs, based on claimed indirect cost rates, total \$537. Overstated costs are as follows.

	Fiscal Year		Total
	1999-2000	2000-01	
Photocopies	\$ (417)	\$ (693)	\$ (1,110)
Software licensing	(3,579)	(5,967)	(9,546)
Totals	(3,996)	(6,660)	(10,656)
Related indirect costs	(239)	(298)	(537)
Audit adjustment	\$ (4,235)	\$ (6,958)	\$ (11,193)

A summary of the claimed costs, allowable costs, and audit adjustments by reimbursable activities is as follows:

	Claimed Costs	Allowable Costs	Audit Adjustment
Random selection process	\$ 19,395	\$ 18,285	\$ (1,110)
Schoolsite capacity	9,546	—	(9,546)
Totals	\$ 28,941	\$ 18,285	\$ (10,656)

Unsupported photocopy costs claimed by the district were derived from employee declarations of estimated numbers of photocopies made for mandated activities, ranging from monthly to annual estimates. Declarations of estimated numbers of photocopies made do not constitute adequate documentation in support of claimed materials and supplies.

The district claimed software licensing and update costs under schoolsite capacity as direct costs, which do not relate directly to mandated activities. Activities claimed related to route and boundary optimization software.

Parameters and Guidelines states that only expenditures identifiable as a direct cost of this mandate may be claimed and that all costs claimed must be traceable and supported by source documents that show the validity of such costs.

Recommendation

We recommend that the district ensure all claimed costs are properly supported and eligible for reimbursement.

District's Response

The audit concludes that over \$15,300 of claims were unsupported or unallowable material and supply costs. The District will not dispute the insignificant and questionable software license costs of \$13,044 or the \$48 of mileage. However, the District does dispute the disallowance of \$1,415 of photocopying expenses and the related indirect costs. The auditors made a determination that photocopying costs were undocumented because they were "estimated by District employees and could not be verified by any other documentation."

The *Parameters and Guidelines* require that costs must be "traceable and supported by source documents that show the validity of such costs." The employee that made the copies recorded the number of copies made, and this documentation was used in the claim. What is the State Controller's undefined standard for documentation of photocopying costs? The District's documentation for photocopying costs is sufficient and reasonable. The auditor's finding regarding unsupported photocopying costs of \$1,415 is unsupported and wrong.

SCO's Comment

In the final audit report dated October 28, 2004, we stated:

The finding relating to unallowable mileage was deleted. Therefore, the fiscal effect of the finding was reduced by \$51, from \$15,333 to \$15,282. The district did not support that the number of photocopies claimed was based on actual rather than estimated number of photocopies made.

The finding, as presented in the draft report, has been edited to clarify that: (1) photocopy costs claimed were based on estimated number of photocopies made, ranging from monthly to annual estimates; and (2) the software licensing and update costs related to route and boundary optimization software.

As noted in Finding 1, our authority to audit the FY 1998-99 claim expired prior to initiating this audit. This revised final audit report removes the FY 1998-99 audit results. Consequently, unallowable costs decreased by an additional \$4,089, from \$15,282 to \$11,193.

**Attachment—
District's Response to
Draft Audit Report**

BOARD OF EDUCATION
MRS. GAYLE CLOUD
PRESIDENT
MRS. DANA S. KRUCKENBERG
VICE PRESIDENT
MRS. MAXINE FROST
CLERK
MR. MICHAEL GOLDWARE
MR. LEWIS J. VANDERZYL

Riverside Unified School District

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BUSINESS SERVICES & GOVERNMENTAL RELATIONS
(909) 788-7470
FAX: (909) 276-2024

SUSAN J. RAINEY, ED.D.
DISTRICT
SUPERINTENDENT

Via Federal Express Mail

May 14, 2004

Jim L. Spano, Chief, Compliance Audits Bureau
Division of Audits
State Controller's Office
300 Capitol Mall, Suite 518
Sacramento, CA 95814

Reference: Intradistrict Transfers Mandate Reimbursement Claims State Audit
Audit Period: July 1, 1998 – June 30, 2001

Dear Mr. Spano:

We are in receipt of the draft audit report for the above referenced mandate reimbursement claims. The Riverside Unified School District (District) disagrees with the accuracy and conclusions of the subject report.

Finding #1 – Unsupported salaries and benefits. The audit concludes that over \$960,000 of claims were based on unsupported salaries and benefit calculations. The Auditors determined that "estimates and declarations of time do not constitute adequate documentation in support of claimed" costs. The audit report goes on to interpret the Parameters and Guidelines and states that "the average number of hours devoted to each function may be claimed if supported by a documented time study." The audit report acknowledges that the District provided time declarations or time studies. The finding that the time studies provided were not documented is absurd and contrary to the facts.

During the December 15, 2003 exit conference, the State Controller's representative, Jim Venneman, explained that the Controller's Office was "working on defining standards for an acceptable time-study document." Mr. Venneman further stated that, "the definition of standards for a documented time-study would be included in future claiming instructions sent out by the State Controller's Office." The State Controller's Office acknowledged that the actual format, documentation, definition, etc. of a time-study was undefined. How is it possible to hold the District to a standard that is not

Jim L. Spano
May 14, 2004
Page Two

defined? The District's time studies, declarations and supporting documentation are sufficient and reasonable. The auditor's finding is unsupported and wrong.

Finding #2 – Unsupported materials and supplies. The audit concludes that over \$15,300 of claims were based on unsupported or unallowable material and supply costs. The District will not dispute the insignificant and questionable software license costs of \$13,044, or the \$48 of mileage. However, the District does dispute the disallowance of \$1,415 of photocopying expenses and the related indirect cost. The auditors made a determination that photocopying costs were undocumented because they were "estimated by District employees and could not be verified by any other documentation."

The Parameters and Guidelines require that costs must be "traceable and supported by source documents that show the validity of such costs." The employee that made the copies recorded the number of copies made, and this documentation was used in the claim. What is the State Controller's undefined standard for documentation of photocopying costs? The District's documentation for photocopying cost is sufficient and reasonable. The auditor's finding regarding unsupported photocopying costs of \$1,415 is unsupported and wrong.

Sincerely,

A handwritten signature in cursive script, reading "Michael H. Fine".

Michael H. Fine
Deputy Superintendent,
Business Services & Governmental Relations

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>